Financial Awareness Messages (FAME)

FIDD, Central Office

Financial Inclusion and Development Department, RBI

Disclaimer

This book is presented as a reading and teaching material with a sincere purpose of making the reader financially literate. It is not intended to influence the reader in making a decision in relation to any particular financial products/s or services/s.

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Reserve Bank of India
India's Central Bank

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FINANCIAL COMPETENCIES

Financial Inclusion and Development Department, RBI

Message 1 { Interest on Loan }

You take a Loan of ₹ 100 from the bank for 1 year

And the bank says you have to pay 10% Simple Interest* per year

It means at the end of the year you have to pay back the ₹ 100 (loan amount) PLUS **₹ 10 (Simple Interest*)** i.e. ₹ 110 in total.

Simple Interest* calculation

$$\left(\text{₹}100 \times \frac{10}{100}\right) \times 1 = \text{₹}10$$

i.e

$$I = \left(P \times \frac{r}{100}\right) \times n \quad \text{where}$$

P = principal; I = interest; r = rate of interest and n = no. of years

---

But BE AWARE!!!

- **Always** read the terms and conditions of the loan sanction letter as they may vary between institutions

- **Always** read the fine print, some institutions may say they charge 2% (per month in small print), but the actual rate works out to 24% per year

- **Always** annualise interest rates to know the real rate and the impact it has on your finances!

**Banks do not offer simple interest rate loan*

Message 2 { Compounding }

Compounding is also called 'Interest on Interest'. In compounding, the benefit is that the interest earned is added to the principal and re-invested, therefore earning interest on the principal PLUS interest!

And when this compounding takes place over a long duration, the return become much higher compared to simple interest*!

An example to explain this:

YEAR 1	
Principal	₹ 10,000
Interest @10% (compounded yearly)	₹ 1,000
Amount at the end of Year 1	₹ 11,000
YEAR 2	
Interest @10% (compounded yearly) on ₹ 11,000 (i.e. original Principal ₹ 10,000 + Interest of ₹ 1000)	₹ 1,100
Amount at the end of Year 2	₹ 12,100
YEAR 3	
Interest @10% (compounded yearly) on ₹ 12,100 (the Amount at the end of Year 2)	₹ 1,210
Amount at the end of Year 3	₹ 13,310

Formula for Compounding

$$A = P \times \left(1 + \frac{r}{n}\right)^{n \times t}$$

where A = Amount; P= Principal; r = Interest rate (Decimal);
n = no. of times compounded in one year; t = time period in years

Banks do not offer simple interest rate loan

The power of compounding

₹ 10,000 earning Simple Interest* of 10% when invested for 10 years will become ₹ 20,000.

BUT with 10% interest compounded quarterly, it will become ₹ 26,851

[= 10000 *(1+((10/100)/4)))^4*10

= 10000 * 2.6851

= 26,851]

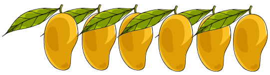
Therefore, Compounding earns ₹ 6,851, or 34% more!!!

REMEMBER

In the long term, huge benefits can accrue from compounding if the money is allowed to remain invested!

**Banks do not offer simple interest rate loan*

Message 3 { Inflation }



2019
Say you get 1 kg mangoes for ₹ 100

2020
The same 1 kg now costs ₹ 110

INFLATION in 1 Year

Inflation = ₹ 110 – ₹ 100 = ₹ 10

Or

(10/100)*100 = 10%

So, inflation is the rate of increase in prices of goods and services over a period of time. This increases the cost of living.

Consider the following scenarios

SCENARIO 1

Money deposited at 6% per annum

Return – 6%
Inflation – 4%

Real Rate of Return :

Return% - Infl. % = 6% - 4% = 2% i.e

POSITIVE RETURN

SCENARIO 2

Money not deposited and held in cash

Return – 0%
Inflation – 4%

Real Rate of Return :

Return% - Infl. % = 0% - 4% = - 4% i.e.

NEGATIVE RETURN

Money held in cash lost value by 4% because inflation was 4%.

From the above, you can understand how important it is to invest in the right financial products that give returns at least higher than inflation!

Message 4 { Time Value of Money }

The time value of money (TVM) is the concept that money available now is worth more than the same amount of money available in the future due to its potential earning capacity, provided the rate of interest is positive. ₹ 100 today may not be equivalent to ₹ 100 to be received after two years.

Consider the following scenarios assuming an interest rate/discount **rate of 10%**

The value of ₹ 100 invested at say 10% interest, compounded yearly, will become ₹ 121 in 2 years. This is called **FUTURE VALUE** of the current cash flow.

Conversely, in the same scenario, receiving ₹ 121 after 2 years is equal to receiving ₹ 100 today. This is called the **PRESENT VALUE** of the future cash flow. The Present Value of ₹ 121 receivable after 2 years is ₹ 100 today.

Thus, we see that money has a **'Time Value'.**

REMEMBER

If money is not invested wisely, it can lose value due to inflation.

If the return on an investment of ₹ 100 is say 5% and inflation rate is 7%, then the real return is (-2%)! Money has lost value to the extent of ₹ 2.

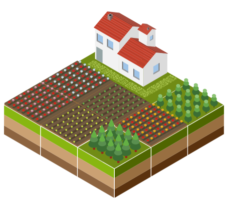
Hence, to compensate for inflation and other factors, financial institutions pay interest if you deposit money, and charge interest if you borrow money. Hence, it is essential to save and invest in appropriate financial products to earn a rate of return above the rate of inflation to preserve the future value of money.

Message 5 { Risk vs. Return }

Any investment entails a certain degree of risk.

Generally, there is a direct correlation between risk and return.
The higher the expected return, the higher the risk
(including the possibility of losing the initial investment as well).

And lower the return, lower the risk as well.



The basic investment principle to be kept in mind while investing or saving in financial products is the **risk vs return trade-off.** High expected returns may entail higher risk and the possibility of potential losses.

Invest your money wisely!

Beware! High and quick return schemes could be risky. Do not chase returns without understanding the risks!

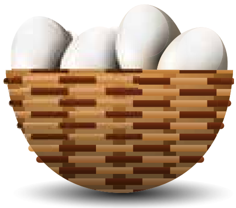
Thoroughly check the background and performance of the entity offering the scheme. Read the terms and conditions carefully.

Do your study and due diligence before being lured by 'Too Good To Be True' schemes of unknown entities!!!

Visit www.sachet.rbi.org.in to report information or register complaint against any entity which has defaulted in repayment of deposits or money collected under any scheme.

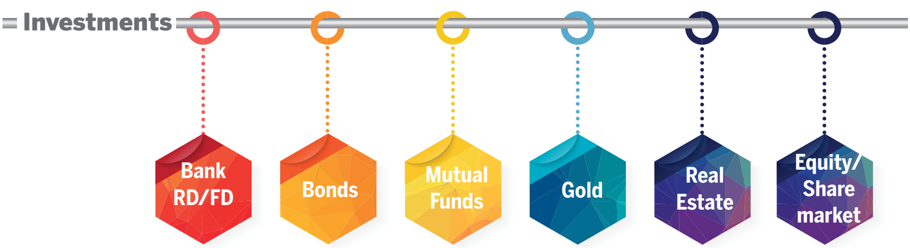
Message 6 { Diversification }

We all know the age-old saying



Do not put all your eggs in one basket.

Diversification is the process of investing your money in different assets.



Why Diversify

The reason one should diversify by investing in different assets is to protect oneself from loss arising from fall in value of any one or more assets. As the returns of the different assets may not fall together, a fall in the price of one asset may be compensated by a rise in the price of another asset thereby safeguarding one's investments from losses.

Financial Awareness Messages (FAME)

BASIC BANKING

Financial Inclusion and Development Department, RBI

Message 7

Budgeting, Saving and Responsible Borrowing

BUDGETING

What is a budget?

Put simply, it is a plan of your **future** income and expenses. Budgets can be yearly, monthly or even weekly.

Why prepare a budget at all?

With a budget in hand, you will be able to control your expenses better and save more. Comparing the budget with the actual expenditure will show where you spent more (or less).

The ultimate aim of a budget is to help plan your finances.

SAVING

What is Saving?

It would be a good approach to view Saving as follows:

Saving = Income - Expenditure ✗

Expenditure = Income - Saving ✓

You should set aside a portion of your income BEFORE you spend anything.

Where to Save?

The three important things that one must keep in mind while Saving are **Safety, Liquidity** and **Return**.

Safety will depend on how certain/guaranteed return of your principal amount or investment from a particular asset are. Government Bonds are the safest. Bank Fixed Deposits are also considered comparatively safe.

Liquidity will depend on how easy it is to sell an asset with minimum loss in value. Bank Deposits, listed and traded Equity Shares and Mutual Funds are considered comparatively more liquid.

Return will be dependent on the type of financial product and the risk that product carries with it.

Equity share may give you more returns but may carry higher risk of loss.

Points to be kept in mind when saving

- Make sure that your savings are invested in diversified instruments (refer earlier message on Diversification)
- Some portion should be in liquid assets so that you can withdraw money when needed
- Do not put your money in instruments that are very risky/ unregulated, you may lose all of it!!!

RESPONSIBLE BORROWING

One should borrow to invest in assets that create value or generate returns. Examples of good borrowing are mortgage loans to buy a house, education loan for funding children's higher education etc.

To invest in property ✓

To fund education ✓

For personal expenditure ✗

Using credit card irresponsibly to fund expenses ✗

Whom to borrow from?
Borrowing from regulated entities like banks, NBFCs and HFCs is a good practice as these entities are regularly supervised, are more transparent, do not overcharge like moneylenders and, in case of any regulatory non-compliance or deficiency in service, provide a cost-free system for grievance redressal, both internally and with the regulator.

In the name of facilitating loan, you may be getting duped
Beware of Agents who offer to assist in getting loan for a fee. Deal directly with bank/NBFC/HFC or Business Correspondent (BC)

Message 8 { Deposit Accounts }

Passive vs. Active Savings

Money in regular Savings Bank accounts fetches very low rates of interest, hence can be termed passive savings. Do not keep too much money in savings account!

Instead, invest in Recurring/ Fixed Deposits of banks that fetch better returns.

Other good practices:

- Taking a passbook/statement of account & checking entries periodically
- Keeping cheque-book (if taken) in safe custody
- Not sharing Internet Banking (if availed) ID & password with anyone
- Not sharing debit card (if obtained) PIN with anyone
- Not sharing OTPs (one time passwords) received for carrying out on-line transactions with anyone

What is nomination and why nominate?

A nominee is the person who is entitled to receive the money lying in the bank account (as a trustee of the legal heir/s of the deceased depositor) after the death of the depositor in single account and death of all depositors in case of a joint account. Nomination helps in quick settlement of claims and reduces hardship for surviving family members.

> "Always fill up the Nomination Form when you open a bank deposit account"

Premature Withdrawal

Fixed Deposits are normally for a particular / specified period of time. If you want to withdraw the amount before the end of the period, then the bank will charge a penalty for pre-mature withdrawal.

In the event of death of the depositor, premature withdrawal would not attract any penal charge.

Message 9 { Credit Scores }

What exactly is a Credit Score?

- Credit Score (a three digit number) indicates a borrower's creditworthiness and is typically based on his/her credit history and other factors
- It is given along with Credit Information Report issued by a Credit Information Company
- Credit Score would be higher in case the borrower has always repaid loans taken from banks/financial institutions on time

Higher the score, the more creditworthy and more responsible the borrower is.

Why is Credit Score important?

- Banks / Financial institutions ascertain/check your credit score and credit history, along with other factors, while sanctioning your loans
- All other things remaining the same, a borrower with a higher credit score will usually be able to borrow at a lower rate of interest

So the question is, how can you improve your Credit Score?

- Borrow only within your means; i.e,. only so much as you can repay regularly & on time
- Make sure you do not miss any repayment instalment
- Repay loan earlier if you can as it creates good credit history

Message 10

New Categories of Banks and Business Correspondents

In recent years, other than conventional banks, certain other categories of banks have come into existence like Payments Banks and Small Finance Banks. Key objective of setting up of both types of banks is to promote greater financial inclusion through a secured, technology driven environment.

Payments Banks

- Can accept demand deposits from public up to ₹ 1 lakh per customer but cannot accept recurring/fixed deposits
- Can issue ATM/Debit Cards but not Credit Cards
- Cannot give any loans and advances

They can also offer payments and remittance services through various channels and distribute mutual funds and insurance products.

Small Finance Banks

Small Finance Banks provide savings vehicle primarily to unserved and underserved sections of the population and extend small ticket loans (upto ₹ 25 Lakhs) to small business units, micro and small enterprises, small and marginal farmers, entities in the unorganised sectors, through high technology low-cost operations.

Small business units

Micro and small enterprises

Small and marginal farmers

Entities in the unorganized sector

Business Correspondents (BCs)

A BC is a representative (or an agent) of a bank who goes to customers (usually in remote locations/villages) to help them with their banking needs /transactions.

A BC can provide you with the following services:

- Open a bank account
- Deposit & withdraw money
- Transfer money into & from your account
- Collection of loan applications
- Disbursal of small value credit

NOTE

You can

- Approach the nearest bank branch to know about availability of a BC in your locality
- Confirm the name and details of the BC from your bank, in case of any doubt
- You can also access **https://www.iba.org.in/bcregistry/** to find a BC near you
- Lodge a complaint with your bank if you are not satisfied with the services of a BC

Financial Awareness Messages (FAME)

DIGITAL FINANCIAL LITERACY

Financial Inclusion and Development Department, RBI

Message 11 { Retail Remittances }

NEFT, RTGS and IMPS are the most popular retail remittance channels offered by banks to transfer money. They can be availed at the bank branch or through online channels like internet banking, mobile banking, etc. offered by your bank.

Here's a graphic that explains the three channels:

Features	NEFT	RTGS	IMPS
Time taken to transfer	A few Hours	Immediately	Immediately
Working hours for customer transactions	24/7 – Round the clock even on weekends and bank holidays	7 am – 6 pm weekdays and working saturdays	24/7 – even on weekends and bank holidays
Minimum amount required	No minimum amount	₹ 2 Lakhs	No minimum amount
Maximum Amount that can be transferred	Any Amount	Any Amount	₹ 2 lakhs

Message 12 { Unified Payments Interface }

Unified Payments Interface or UPI is a platform that allows transfer of money between two bank accounts using a smartphone which has access to the internet. You can use the BHIM app or any of the banks' app or any third-party app for facilitating UPI transactions.

How does it work

Requirements:

You need a bank account, a mobile number linked to that bank account, and a smartphone with internet connection. Debit card linked to the account is required onetime for setting-up UPI on mobile phone.

How to activate UPI

- Download the App on your smartphone and link bank account and create a UPI PIN by following the instructions given in the App
- Use of UPI: Using your UPI PIN, you can transfer funds seamlessly to any beneficiary by just knowing the beneficiary's virtual address
- If the beneficiary doesn't have a virtual address, the option of transferring funds to the beneficiary through IFSC and account number is also available

What are the benefits of UPI

- Can send and receive money instantly
- Can transfer money 24/7, 365 days even on holidays and Sundays using a smartphone
- Use of virtual id makes it easy to transfer money and obviates the need to share sensitive bank account information

Remember the following **'Dos and Don'ts'** with respect to UPI

Dos

- Keep UPI App updated
- Always review the merchant/person's collect request before accepting it
- Recheck and re-confirm the amount and beneficiary before effecting the transfer

Don'ts

- Never share your PIN with anyone
- Refrain from transferring money without verifying/ reconfirming the recipient first

Message 13

Dos and Don'ts for Electronic Banking Transactions

Dos

- Always type your bank's URL using only verified and trusted browsers and HTTPS secured websites for payments (S stands for Secure). Look for secure sign (lock) in the URL window (image)
- Make your passwords difficult to guess, by using alphanumeric and special characters (#, *, @, $ etc.)
- Ensure that you change your password frequently
- Always keep your payment transaction Apps (banks, non-banks, Wallets etc) updated with the latest version
- Link your mobile number and email ID with your bank account and opt for SMS/e-mail alert service
- In case of any unusual/unauthorised transaction, inform the bank immediately

Don'ts

- Never access your bank's website through online search.
- Never store login credentials on phone, also don't enter/store credentials on untrusted portals/service providers
- Avoid transacting through public devices, cyber cafes and on unsecured/open networks like public/free WiFis
- Never share your mobile banking PIN or Internet banking ID, password and OTP with anyone (including bank staff)

Message 14

Dos and Don'ts for ATM Transactions

Contact your bank immediately to block the Card if it gets lost or stolen or if you feel it has been compromised.

Note the following **Dos and Don'ts** for ATM transactions

Dos

- Ensure that you use only EMV Chip and PIN based Debit Card instead of card with a magnetic strip (Approach your bank for replacing the magnetic strip card)
- Ensure that there are no unauthorized cameras or other skimming devices near ATMs when you key-in your PIN or swipe your cards
- Make sure no one sees the PIN when it is being entered at the ATM. It is a good practice to cover the keypad with one hand and use the other hand to key-in your PIN
- Remember to count and check the notes dispensed
- Remember to collect your card after the transaction is over
- Register your phone number with card issuing bank to get alerts on ATM transactions
- Contact your bank immediately to block the card if it gets lost or stolen or if you feel it has been compromised

Note:
If you have any complaint related to a failed ATM transaction, bring it to the notice of the Card issuing bank immediately. Banks are required to resolve failed ATM transaction within T+5 days, else pay compensation to you @ ₹ 100 per day

Don'ts

- Do not share your ATM card details (card no., expiry date and CVV etc.) and PIN with anyone
- Never leave the Card in the ATM
- Never share your OTP with anyone
- Never write your PIN on the Card

Message 15 Customer Liability for Fraudulent (Digital) Transactions

When doing any electronic/ATM transaction, there is a possibility that you may incur a loss due to carelessness or fraud

Notify your bank

- Irrespective of whose fault it is, notify your bank immediately if you encounter a fraudulent or unauthorized electronic banking transaction in your account/Card
- The longer you take to notify the bank, higher is the loss to you or your bank

Bank's responsibility

If the fraudulent transactions continue even after you have informed the bank, the bank will have to bear the loss

- Your bank has to provide an acknowledgement for the complaint when you notify/inform the bank
- The bank must resolve your complaint within 90 days
- Bank shall credit the amount involved to the customer's account within 10 working days from the date of such notification by customer

Limited Liability

- If loss is due to negligence of the customer (sharing password etc.) then customer will bear the loss till the bank is informed
- If there is no negligence of the customer, and the customer informs the bank immediately (within 3 working days of the unauthorized transaction), there is no liability of the customer

In cases where the responsibility for the unauthorized electronic banking transaction lies neither with the bank nor with the customer, but lies elsewhere in the system and when there is a delay (of four to seven working days after receiving the communication from the bank) on the part of the customer in notifying the bank of such a transaction, the per transaction liability of the customer shall be limited to the transaction value or the amount mentioned below, whichever is lower.

Type of Account	Maximum Liability
• BSBD Accounts	₹5000/-
• All other SB accounts • Pre-paid Payment Instruments and Gift Cards • Current/Cash Credit/Overdraft Accounts of MSMEs • Current Accounts/Cash Credit/Overdraft Accounts of Individuals with annual average balance (during 365 days preceding the incidence of fraud)/limit up to Rs.25 lakh • Credit cards with limit up to Rs.5 lakh	₹10000/-
• All other Current/Cash Credit/Overdraft Accounts • Credit cards with limit above Rs.5 lakh	₹25000/-

BEWARE!

If the fraudulent transaction is due to your negligence, that is, because of sharing your password, PIN, OTP, etc., you will bear the loss till you report to the bank.

REMEMBER

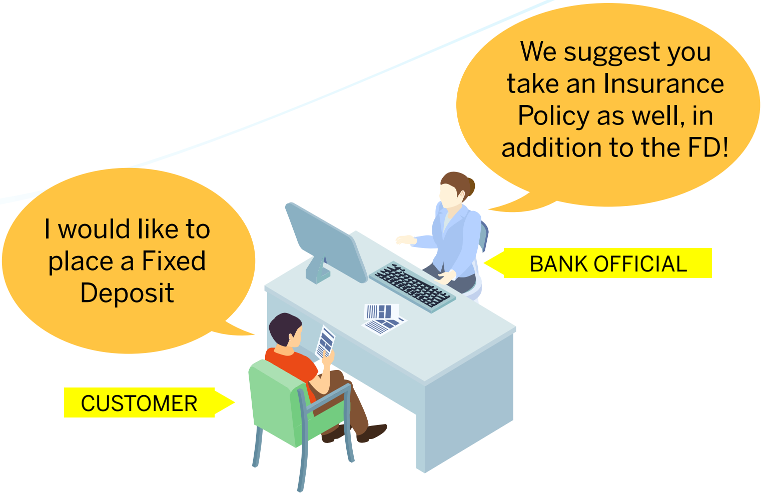
Keep your bank's contact details handy to report fraudulent transactions immediately.

Financial Awareness Messages (FAME)

CONSUMER PROTECTION

Financial Inclusion and Development Department, RBI

Message 16 { Mis-selling }



REMEMBER

- It is a good practice to not combine savings with insurance. Assess your insurance needs and investment requirements separately
- Take an insurance policy or investment product only if you need it! The bank cannot force you to take one!
- Read the application forms well before signing. Avoid putting your signature on blank forms
- If the bank has sold you a product which you did not ask for, or did not explain the important terms/clauses, do not hesitate to lodge a complaint with the bank, and if you are not satisfied with the bank's response a complaint can be made to the RBI Ombudsman, either in writing or on the Complaint Management System of RBI (refer to Message 19)
- Banks are required to display Ombudsman details in their branches

Message 17 { Sachet Portal }

So what can you do?

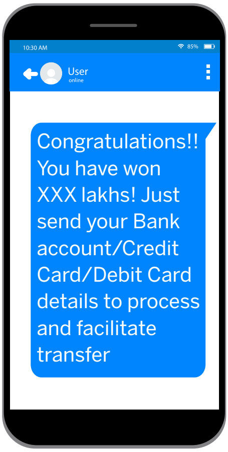
- Invest with or deposit only with entities registered with or regulated by RBI, SEBI, IRDAI, PFRDA or Government
- Do not be lured by schemes promising very high returns; they could be fraudulent schemes
- Do not take loans from entities offering loans at a rate lower than rate charged by the banks. They may just collect the processing fees and vanish!

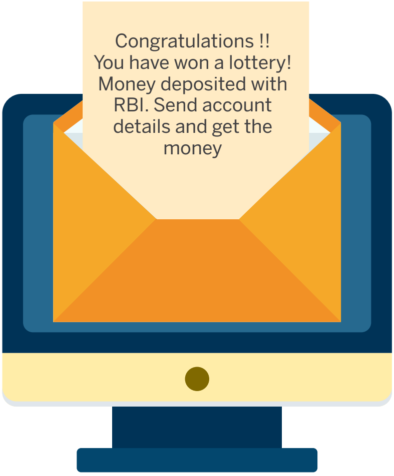
Visit www.sachet.rbi.org.in to report information or complaint against any entity which has defaulted in repayment of deposits or money collected under any scheme

Message 18 {Too good to be True?}

As they say

'There is no free lunch'. If someone is promising free money or a lottery prize ticket which you never bought, then you must PAUSE and THINK - Why? Is it too good to be true?





Do not fall prey to all this! Remember that:

- RBI/banks never ask for your bank account/credit card/debit card details; PIN and OTP etc. through email/SMS or phone calls
- RBI neither opens savings account/current account/fixed deposit of individuals nor offers credit/debit card or engages in any transaction with any individual

Beware of fictitious offers.

Never provide your account related details to anyone

RBI Kehta Hai and RBISAY

RBI has launched a mass media public awareness campaign (SMS, Electronic and Print Media, Facebook and Twitter) to educate the public about financial literacy and consumer protection messages.

For the SMS campaign, the RBI sends messages from **'RBISAY'** ID. For more details, call **14440**.

Message 19 Grievance Redressal Mechanism

A quick and cost-free mechanism for resolution of customer complaints relating to deficiencies in services rendered by banks/NBFCs/payment system participants has been put in place by RBI under its Ombudsman Schemes (https://rbi.org.in/Scripts/Complaints.aspx or cms.rbi.org.in).

भारतीय रिज़र्व बैंक
Reserve Bank of India

शिकायत प्रबंध प्रणाली
Complaint Management System

Before lodging a complaint with the Ombudsman, always remember:

- to first approach the bank/NBFC/payment system participant concerned for redressal of your complaint
- to file your complaint with Ombudsman after 1 month of approaching the bank/NBFC/payment system participant, if your complaint remains unredressed or if you are not satisfied with the reply (within 1 year of reply)
- that the complaint should fall under grounds as mentioned in the respective Ombudsman Schemes
- that the complaint should contain the required details/information and should not have been dealt with/pending with any other forum (like Courts) or dealt with/settled earlier by the Ombudsman
- that lodging the complaint on the CMS in the specified format will help in expeditious disposal by the Ombudsman

Procedure for Filing of Complaint

When?

- If reply is not received from bank/NBFC/payment system participant within 1 month of complaint
- Complainant remains dis-satisfied with the bank/ NBFC/payment system participant's reply

Where?

- Ombudsman under whose jurisdiction branch/registered office of the bank/NBFC/payment system participant falls (https://rbi.org.in/Scripts/Complaints.aspx or cms.rbi.org.in).

How?

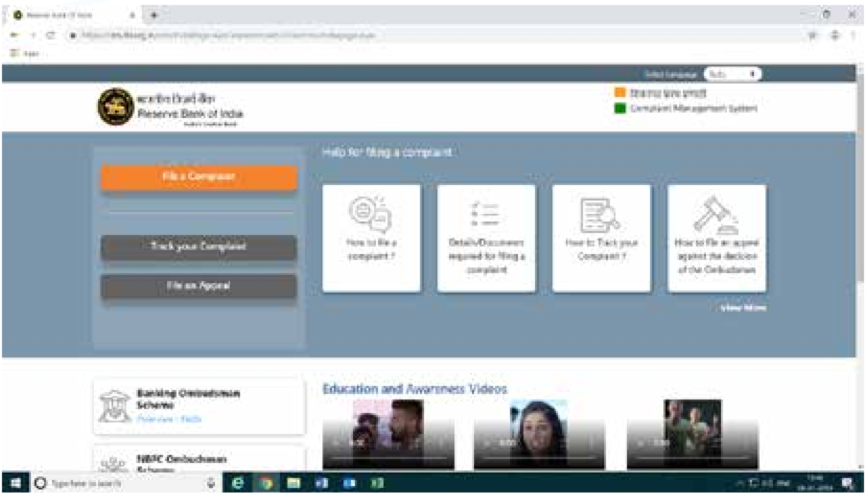
- Submit duly signed complaint in the form specified in Annexure of the Scheme using RBI's Complaint Management Portal (cms.rbi.org.in) or e-mail or post
- Mention name and contact details (address, e-mail, phone number) of complainant and bank/NBFC/payment system participant
- Include all details such as nature of complaint, loss and relief sought etc. and attach all relevant documents

FOR MORE DETAILS, visit:

https://rbi.org.in/Scripts/Complaints.aspx or cms.rbi.org.in

Message 20 { Complaint Management System (CMS) of the RBI }

For filing a complaint with an Ombudsman against any of the entities regulated by RBI, log on to the portal cms.rbi.org.in. The screenshot of the web page of the portal is as under:



The portal is user friendly and has self-help videos to guide the user regarding how to file a complaint.

On lodging a complaint, the complainant will get an instant acknowledgement through SMS/Email with a unique registration number which can be used for future reference including online tracking of the status of the complaint.

The complainant can also use the portal for giving feedback on the experience of grievance redressal by RBI and filing an appeal.

The portal also has latest videos and posters on consumer awareness and protection initiatives of the RBI.

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